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STUDENT REPORT

A COST ANALYSIS OF GROUP INSURANCE PLANS

MAJOR MARK I. ACKERSON 85-0010

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REPORT NUMBER 85-0010

TITLE A COST ANALYSIS OF GROUP INSURANCE PLANS

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The Fifth Quadrennial Review of Military Compensation has recommended an additional optional group insurance policy be made available to United States servicemen through the existing Servicemen's Group Life Insurance system. To prevent pursuing a plan that would be significantly costly, this study examines existing group life insurance policies on the open market to determine a reasonable maximum cost for such a suggested insurance program. The study concludes that various plans vary widely in features and cost and that the average cost of five plans for flyers and six plans for nonflyers would be an appropriate measure unless the government underwrites the hazards of war and flying. In that case, the average of six plans for nonflyers would be the appropriate measure for both flyers and nonflyers.

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PREFACE

The topic of life insurance frequently conjures visions of salesmen at the door or on the phone, yet most servicemen have some form of life insurance, if only coverage under the Servicemens Group Life Insurance (SGLI) program. Many believe addditional insurance protection beyond SGLI limits is needed, especially for servicemen with a family. These beliefs have led to a recommendation from the Fifth Quadrennial Review of Military Compensation for increased benefits under SGLI and addition of an optional insurance policy. The policy envisioned would provide term insurance with a face value of $50,000, the cost of which is undetermined.

It would be imprudent to present such an optional insurance policy to service members if it should prove to be significantly more costly than policies now available on the open market. This study examines the costs of some group term insurance policies offered to servicemembers through service related organizations and paramilitary publications. The purpose of this examination is to determine a reasonable upper cost limit for a policy similar to that proposed. Since virtually no two policies are alike, pertinent differences are also examined in the process.

The sponsor, HQ USAF/MPXE, has reviewed this paper. Sponsor recommendations have been incorporated.

ABOUT THE AUTHOR

Major Mark I. Ackerson was [redacted] reared on a farm nearby. He holds a Bachelor of Arts degree in mathematics from Oklahoma State University and a Master of Science degree in operations research from the Air Force Institute of Technology at Wright Patterson AFB, Ohio. Mark's military experience includes duty as af navigator and radar navigator in B52s at Blytheville AFB, Arkansas, and K. I. Sawyer AFB, Michigan. He participated in the "Bullet Shot" deployment to Guam and in the "Linebacker II" operations over North Vietnam. In addition to flying duties, Mark served a tour in the Pentagon as a personnel analyst. He has completed Squadron Officer School and Air Command and Staff College (ACSC) by correspondence prior to attending ACSC in the class of 1985.

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EXECUTIVE SUMMARY

REPORT NUMBER 85-0010

AUTHOR(S) MAJOR MARK I. ACKERSON

TITLE A COST ANALYSIS OF GROUP INSURANCE PLANS

I. <u>Purpose:</u> To provide a measure of a reasonable upper cost limit for a proposed optional life insurance policy through the Servicemen's Group Life Insurance program.

II. <u>Problem:</u> The Fifth Quadrennial Review of Military Compensation recommended an optional group term life insurance policy be added to the current Servicemen's Group Life Insurance program. The cost of such a policy is yet to be determined, but it would clearly be unwise for the Air Force to support institution of this kind of policy if it were significantly higher in cost than similar commercial policies. Therefore, a measure of an appropriate upper cost limit for this kind of policy is needed to evaluate the cost of the proposed policy when it is determined.

III. <u>Data:</u> Advertisement brochures from several companies advertising in paramilitary publications and from military related associations were requested. Six brochures were received which offered policies similar to that proposed. For each of these, a cost in terms of cents per month per thousand dollars of insurance in force was computed. Computations were made in the most conservative manner possible, using the minimum amount

CONTINUED

payable for death from any cause, including war and crewmember duty, as the value of the policy.

IV. Conclusions: Policies vary widely in features and cost. In spite of these variances, sufficient data is available to make a judgement as to the maximum a policy provided through Servicemen's Group Life Insurance should cost. The recommended upper cost limit for flyers is the average of five of the policies examined, omitting the policy offered through the Air Force Association. This policy is omitted since the cost for flyers is extremely high due to restrictions on payments for death as a crewmember during war. For nonflyers, the appropriate measure is the average of all six policies. However, in the event the government would underwrite the extra hazards of military duty for the proposed policy as it does for the current Servicemen's Group Life Insurance, then the nonflyers measure should also be used for flyers.

V. Recommendation: That the United States Air Force use the above measures to evaluate the cost of the proposed optional insurance policy, when the cost is determined. This evaluation would ensure that effort is not wasted on a program that ultimately would not be beneficial to Air Force personnel.

Chapter One

HISTORY OF MILITARY INSURANCE

Availability of reasonable cost financial protection for survivors has come to be viewed with increasing importance during this century in this country. In 1880, there was about one and a half billion dollars of life insurance in force in the United States. That figure grew to 2,319 billion dollars worth of insurance in force by 1976, with a rate of growth that would place the figure over 3,500 billion dollars by the end of 1984. (9:234) The amount of insurance in force in this country has grown almost exponentially during this period of time, with the exception of the 1930's depression years when there was a small decline in the amount in force.

Until recently, though, it has been difficult for military personnel to obtain life insurance. This is due to the additional risk individuals in the military pose to insurance companies because of the nature of their jobs. Over the years, these risks have resulted in very high prices for insurance for servicemen or even the refusal to insure them for all the risks involved with military service. This refusal usually took the form of war clauses and air clauses which exempted the insurance coverage from deaths due to these causes. However, these same risks also served to heighten the need for protection to many servicemen, so that today many question whether the protection currently available is sufficient.

The question of sufficiency has raised recommendations that additional insurance be made available to military personnel. One particular recommendation for an additional group policy has generated a question that is the focus of this paper. That question is, in comparison with currently available insurance policies, how much should such a policy cost if it were to be offered in conjunction with the current Servicemen's Group Life Insurance (SGLI)? To answer this question, I will review the historical setting for insurance for service members in this chapter, examine specific kinds of policies in chapter two, discuss the policies used in this analysis in chapter three, and present and analyze cost data from those policies in chapter four. Financial protection for survivors of United States servicemen was virtually nonexistent until October 6, 1917, when Congress passed the War Risk Insurance Act. Under this law, servicemen could buy United States Government Life Insurance (USGLI) in amounts from $1,000 to $10,000. USGLI was term insurance which was renewable each year and designed as coverage during World War I, since the Act specified that it would expire if not converted to permanent insurance within five years after the war. However, a series of extensions were granted and conversion was never actually required. (5:289).

Congress replaced USGLI with a new program known as National Service Life Insurance (NSLI) for those who entered service on or after October 8, 1940. Like USGLI, NSLI was term insurance available in amounts from $1,000 to $10,000. However, NSLI was five year renewable term insurance convertible to permanent insurance after being in effect one year. In addition, NSLI was based on a lower interest rate than USGLI, resulting in slightly higher premiums and lower benefits when paid on an income basis. Also, the Veterans Administration (VA) traditionally followed a conservative policy in setting premium rates, so charges were usually more than justified by mortality experience, resulting in payment of annual dividends to USGLI and NSLI policyholders. (9:289)

In April, 1951, the Servicemen's Indemnity Act terminated new issues of USGLI and NSLI and in their place provided a $10,000 gratuitous indemnity payable to the survivors of a member who died on active duty or within 120 days after a period of active duty. However, the amount of the indemnity was reduced by the face value of any USGLI or NSLI insurance in effect. The Act also established a Veteran's Special Term Life Insurance (VSLI) program. VSLI was similar to NSLI, but designed to provide low cost insurance during the transition from military to civilian life. (9:290)

All of these programs provided a fixed sum of money in the event of the death of a covered service member, but none provided income replacement for survivors. Then, in August, 1956, the Servicemen's and Veterans Survivors Benefits Act created Dependency and Indemnity Compensation (DIC) as a partial income replacement, effective January 1, 1957. In addition, the Act placed military personnel under the Social Security System and ended both the $10,000 Servicemen's Indemnity Act gratuity and the VSLI program. (9:290)

Significantly, on January 1, 1957, no government life insurance program was generally available to current or former members of any of the uniformed services. This situation lasted until the Act of September 29, 1965 established the Servicemen's Group Life Insurance (SGLI) program. There have been some modifications to the SGLI program in subsequent years, but most of the fundamentals have remained to date. SGLI is term insurance with no cash, loan, paid-up, or extended insurance values. Neither does it provide accidental death or disability benefits. SGLI is coverage in addition to any other coverage an individual may have. Originally, the maximum amount of insurance under SGLI was $10,000, but that has grown to $35,000 and there are

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would be 25.7 cents. These figures reflect the possibility of significantly different lifetime insurance costs over a period such as 30 years. They do not however, attempt to equalize the amount of insurance or other benefits that may be included in the various policies.

The measure of costs for nonflyers for purposes of evaluating costs available under the 5th QRMC optional insurance proposal is the average of the insurance costs as depicted in the right hand column of Table 4. In general, this measure is such that two of the six policy costs are more that the average. The exceptions to this are in ages 41-49, and then less than half a cent outside of this rule of thumb.

CONCLUSION

Costs for group term insurance may vary widely. An appropriate measure for judging how reasonable the costs for a group policy as recommended by the 5th QRMC would be the average of costs depicted in Table 4 for nonflyers, and in Table 2 (without AFA) for flyers if the government does not underwrite the extra hazards of war and aviation as it does under the current SGLI. Should the government underwrite this hazard for the proposed optional insurance, then the measure used for nonflyers should be used for flyers as well. Some judgement should be employed in applying these measures. For instance, the disadvantage of costs slightly over the measure in one age group might be judged to be more than overcome if all other costs were below the measure and at least some well below. I recommend the Air Force use these measures to evaluate the usefulness of pursuing the proposed optional insurance policy once its cost is known.

becomes quite competitive after age 34.

AGE	USBA	ASMBA	OBA	USA	AFRBA	AFA	AVERAGE
20	8.9	29.8	10.0	12.5	18.0	08.0	14.5
21	8.9	29.8	10.0	12.5	18.0	08.0	14.5
22	8.9	29.8	10.0	12.5	18.0	08.0	14.5
23	8.9	29.8	10.0	12.5	18.0	08.0	14.5
24	8.9	29.8	10.0	12.5	18.0	08.0	14.5
25	8.9	40.8	10.0	14.6	18.0	09.1	16.9
26	11.0	40.8	10.0	14.6	18.0	09.1	17.3
27	11.0	40.8	10.0	14.6	18.0	09.1	17.3
28	11.0	40.8	10.0	14.6	18.0	09.1	17.3
29	11.0	40.8	10.0	14.6	18.0	09.1	17.3
30	11.0	39.7	11.2	20.8	18.0	12.5	18.9
31	14.1	39.7	11.3	20.8	18.0	12.5	19.4
32	14.1	39.7	11.3	20.8	18.0	12.5	19.4
33	14.1	39.7	11.3	20.8	18.0	12.5	19.4
34	14.1	39.7	11.3	20.8	18.0	12.5	19.4
35	14.1	41.7	17.3	26.7	18.0	15.4	22.2
36	17.3	41.7	17.3	26.7	18.0	15.4	22.7
37	17.3	41.7	17.3	26.7	18.0	15.4	22.7
38	17.3	41.7	17.3	26.7	18.0	15.4	22.7
39	17.3	41.7	17.3	26.7	18.0	15.4	22.7
40	17.3	57.1	30.0	33.3	18.0	25.0	30.1
41	32.5	57.1	30.0	33.3	18.0	25.0	32.6
42	32.5	57.1	30.0	33.3	18.0	25.0	32.6
43	32.5	57.1	30.0	33.3	18.0	25.0	32.6
44	32.5	57.1	30.0	33.3	18.0	25.0	32.6
45	32.5	66.7	43.1	37.5	18.0	40.0	39.7
46	52.5	66.7	43.1	37.5	18.0	40.0	39.7
47	52.5	66.7	43.1	37.5	18.0	40.0	39.7
48	52.5	66.7	43.1	37.5	18.0	40.0	39.7
49	52.5	66.7	43.1	37.5	18.0	40.0	39.7

Table 4. Nonflyers Insurance Costs

Overall, the AFA policy is the cheapest of the policies that vary in cost by age group. It is interesting to note the lifetime costs of the policies however. If the costs displayed were paid over the 30 years considered in this study, the average cents per month per thousand dollars of insurance paid under the AFRBA policy would clearly be 18 cents, while for the AFA policy it would be 18.3 cents. But, if an individual were to insure with AFA from age 20 through age 39, and then switch to the AFRBA policy, then the average cents per month per thousand dollars of insurance over the 30 years would be 13.5 cents. In contrast, the average for the most expensive policy, ASMBA, For nonflyers, who represent the bulk of Air Force personnel, costs are generally less than for flyers. Some companies do not differentiate between flyers and nonflyers in terms of cost of insurance, but these are definitely a minority. Certainly, the large population of nonflyers in the Air Force will be just as interested in obtaining adequate insurance coverage as are the flyers.

The pertinent relationship for this study is not that flyers insurance costs more in general. Rather, it lies in the possibility that, as in the present SGLI insurance program, the United States Government would underwrite the extra hazard associated with military duty. If this actually proves to be the case, then the most reasonable comparison of costs for both flyers and nonflyers is that of nonflyers' rates from the commercial market.

The insurance policies analyzed for nonflyers are the same as those analyzed for flyers. The face values of these policies are presented in Table 3, and the costs in cents per month per thousand dollars of insurance are presented in Table 4. Again, the policy face values differ from those for flyers because of the restrictions placed on payments if death occurs as a result of war or crewmember duty. The AFA policy is now very competitive for nonflyers. However, the AFA costs are not level as they were in the case of flyers because the face value decreases with age.

AGE* GROUP	USBA	AGE* GROUP	ASMBA	OBA	USA	AFRBA	AFA
20-25	100.0	20-24	50.4	50.0	50.0	50.0	125.0
26-30	90.0	25-29	51.5	50.0	50.0	50.0	110.0
31-35	80.0	30-34	52.9	80.0	50.0	50.0	80.0
36-40	65.0	35-39	50.4	52.0	50.0	50.0	65.0
41-45	50.0	40-44	52.5	50.0	50.0	50.0	60.0
46-50	60.0	45-49	45.0	51.0	50.0	50.0	50.0

* USBA uses a one year different age grouping from the others.

Table 3. Face Value of Policies for Nonflyers ($1,000)

As can be seen in Table 4, the single cheapest policy for nonflyers through age 39 is the AFA policy, with the exception of ages 30-34 where the OBA policy is slightly cheaper, and age 35 where the USBA policy is the cheapest. The ASMBA policy is easily the most expensive. The level cost per thousand of the AFRBA policy is the second most expensive through age 29, but cost of the proposed option were way out of reason.

If the pricing philosophy used is to base the cost upon the age of the insured, the emperical measure recommended is the average of the five policies. Again, the AFA option would be deleted from the average since it is clearly intended to avoid risk to the insurance company. Such risk is inherent in the nature of the occupations of military aviators. Without such coverage, the optional insurance coverage would be of limited value to any military flyer.

AGE	USBA	ASMBA	OBA	USA	AFRBA	AFA	AVG WITH AFA	AVG W/OUT AFA
20	17.8	29.8	25.9	12.5	25.0	66.7	29.5	22.0
21	17.8	29.8	25.9	12.5	25.0	66.7	29.5	22.0
22	17.8	29.8	25.0	12.5	25.0	66.7	29.5	22.0
23	17.8	29.8	25.0	12.5	25.0	66.7	29.5	22.0
24	17.8	29.8	25.0	12.5	25.0	66.7	29.5	22.0
25	17.8	40.8	25.0	14.6	25.0	66.7	31.6	24.6
26	22.0	40.8	25.0	14.6	25.0	66.7	32.4	25.5
27	22.0	40.8	25.0	14.6	25.0	66.7	32.4	25.5
28	22.0	40.8	25.0	14.6	25.0	66.7	32.4	25.5
29	22.0	40.8	25.0	14.6	25.0	66.7	32.4	25.5
30	22.0	39.7	25.0	20.8	25.0	66.7	33.2	26.5
31	28.1	39.7	25.0	20.8	25.0	66.7	34.2	27.7
32	28.1	39.7	25.0	20.8	25.0	66.7	34.2	27.7
33	28.1	39.7	25.0	20.8	25.0	66.7	34.2	27.7
34	28.1	39.7	25.0	20.8	25.0	66.7	34.2	27.7
35	28.1	41.7	28.8	26.7	25.0	66.7	36.2	30.1
36	17.3	41.7	28.8	26.7	25.0	66.7	34.4	27.9
37	17.3	41.7	28.8	26.7	25.0	66.7	34.4	27.9
38	17.3	41.7	28.8	26.7	25.0	66.7	34.4	27.9
39	17.3	41.7	28.8	26.7	25.0	66.7	34.4	27.9
40	17.3	57.1	30.0	33.3	25.0	66.7	38.2	32.5
41	32.5	57.1	30.0	33.3	25.0	66.7	40.8	35.6
42	32.5	57.1	30.0	33.3	25.0	66.7	40.8	35.6
43	32.5	57.1	30.0	33.3	25.0	66.7	40.8	35.6
44	32.5	57.1	30.0	33.3	25.0	66.7	40.8	35.6
45	32.5	66.7	43.1	37.5	25.0	66.7	45.3	41.0
46	52.5	66.7	43.1	37.5	25.0	66.7	48.6	45.0
47	52.5	66.7	43.1	37.5	25.0	66.7	48.6	45.0
48	52.5	66.7	43.1	37.5	25.0	66.7	48.6	45.0
49	52.5	66.7	43.1	37.5	25.0	66.7	48.6	45.0

Table 2. Flyers Insurance Costs

As can be seen from the table of costs at Table 2, there are two very different pricing techniques. In the case of the AFA and the AFRBA policies, price is level throughout the term of the policy. The other policies change cost as the insured increases in age and enters new age catagories which occur every five years. Under the level pricing scheme, an individual generally pays more per thousand dollars of insurance while young, but the cost averages out by paying generally less when older. The AFA policy is depicted at such a high cost level because of the combination aviation and war restriction mentioned in chapter three which pays only $30,000 for a crewmember's death in an aviation accident during war, even though the individual may be carrying a policy that would pay at least $50,000 if the death were not during war.

The costs used in this analysis reflect the cost to an individual of the stated age if he were to purchase the policy at that age. They do not necessarily reflect the cost an individual would pay at that age if he had purchased the policy at an earlier age, in a different age bracket. Some policies do not change cost as an individual progresses through different age brackets, but others do.

The cost of the ASMBA and the AFA policies for flyers are consistently above the average cost of all the policies. Further, the least expensive policy through age 40, the USBA policy, features such significant increases in premiums that it becomes the most expensive after age 46. At age 41, the level premium of the AFRBA policy becomes the least expensive. With the exception of the AFA policy with its restrictive payments for flyers during war, the most expensive policy up to age 46 is the ASMBA policy.

Data on an insufficient number of policies was available to make an analysis using measures such as standard deviation meaningful. Therefore, an emperical measure will be used to present an appropriate measure of the minimum cost that should be incurred if an optional policy were to be provided through SGLI. Figure 2 also presents the average costs of the policies for flyers, using all six policies and an average using only five policies, which deletes the high cost of the AFA policy for flyers as an outlying cost due to the combined war and aviation restriction of that policy.

Two emperical measures might be recommended, depending upon whether the pricing philosophy used in the proposed optional insurance was to use level costs, or costs that vary by the age of the insured. If that pricing philosophy was to use level costs, then the only appropriate pricing measure would seem to be the level cost of the AFRBA policy. This is because the AFA policy is so restrictive for combat aviators. Since this would be a comparison with only one set of cost data, it would have to be viewed as a rough measure, usable only to determine if the

Chapter Four

DATA PRESENTATION AND ANALYSIS

This chapter presents the heart of the paper, the analysis of the costs of the six policies representing term insurance comparable to the optional insurance policy proposed by the 5th QRMC. The analysis will be done in terms of cost in cents per month per thousand dollars of insurance coverage. The focus will be on flyers, but will also include costs for nonflyers as well.

The face value of the various policies in this analysis are presented in Table 1. The values presented represent the minimum that would be paid upon death of the insured for any cause, with the possible exception of suicide. This is important to note, since some policies would pay more than shown if death were not by war or crewmember related. Most policies do not pay for suicide either entirely, or in the first one or two years the policy is in effect. The face values were selected to be as close to $50,000 as possible since the proposed insurance option is for that amount. In some cases, this means using a basic policy plus an additional option or rider. The values are for the face value plus these riders, if necessary, and do not include any other benefits of the policy such as accidental death and disability.

AGE* GROUP	USBA	AGE* GROUP	ASMBA	OBA	USA	AFRBA	AFA
20-25	50.0	20-24	50.4	60.0	50.0	50.0	30.0
26-30	45.0	25-29	51.5	60.0	50.0	50.0	30.0
31-35	64.0	30-34	52.9	60.0	50.0	50.0	30.0
36-40	65.0	35-39	50.4	52.0	50.0	50.0	30.0
41-45	50.0	40-44	52.5	50.0	50.0	50.0	30.0
46-50	60.0	45-49	45.0	51.0	50.0	50.0	30.0

* USBA uses a one year different age grouping from the others.

Table 1. Face Value of Policies for Flyers ($1,000)

tional cost. United of Omaha is the underwriter. This policy does not guarantee $50,000 coverage for all flyers since it provides for a maximum payment of $30,000 for death in conjunction with aviation crew duties during wartime. There is also a restriction on aviation death benefits of one-half the face value of the policy if not during war. However, the policies available are sufficient to allow one to take out a policy that will still provide $50,000 in that event. In addition, there is an accidental death benefit that varies in amount depending upon which of the three insurance options was purchased, but this option does not pay along with the payment of an aviation death benefit. Other features of this policy include a guarantee that increased coverage may be applied for at any time, a guarantee that the policy can be converted at age 75 to the amount of the coverage in effect at the time of the conversion, and a disability waiver of premium rider that can be purchased at additional cost. The actual cost of this insurance policy would also most likely be less than the advertised cost used in this analysis since they also pay dividends which have averaged over 20% in each of the last 5 years. (1)

As the above descriptions indicate, there are many features in these policies that make each distinct. However, the value of any one of these features is not evaluated in this analysis, since personal taste or need of such features would determine their attractiveness to any individual. In addition, the associations that offer group insurance offer it only to the members of the particular association. Therefore some additional cost would be incurred to purchase insurance from any of these of which a person was not a member already. The cost of membership is not added into the analysis though, since it is usually very nominal...on the order of $2.00.

insurance can be maintained as the insured's age increases. (7)

The ASMBA policy coverage is level term and level cost based on the age of the insured at the time the insurance is taken out. The term of the insurance is to age 65. This policy also offers several options such as a money back rider (at extra cost) $3,000 accidental death and disability coverage, a small amount of coverage for each dependent, and other "benefits" such as investment advisory service, rent-a-car discounts, emergency cash card, and a newsletter. The money back rider is a unique feature that provides for refund of all premiums paid including that for the rider at age 65. (3)

Coverage offered through the OBA is decreasing term at a relatively cheap cost. It is underwritten by the American Amicable Life Insurance Company of Waco, Texas. The premiums may change slightly every five years as the insured enters new age brackets, but the major change is in the face value of the policies. However, the insurance is offered in four options such that different options can be selected to maintain the desired face value as the age of the insured increases. The term of this insurance is to age 70, and is continuable at retirement or separation from the service. It likewise contains additional accidental death and disability insurance and pays only 50% of face value for death incurred as a student aviator. (6)

The Life Insurance Company of North America underwrites the USA policy and guarantees it is transferrable to any other policy offered by the company at the time, up to age 100. The basic term is to age 70, but after age 70, the face values available are greatly reduced. In addition, there is a non-smokers discount of 20% below age 45, and 10% over age 45. Dependent coverage is also available at additional cost. (8)

The AFRBA policy is underwritten by the John Hancock and the State Mutual insurance companies. The cost of this policy is likely to be cheaper for most years than reflected in this analysis since this group insurance features a dividend or refund system. The actual dividend received at the end of an operating year depends on the actual cost of doing business each year, but a dividend has been paid for the last 37 consecutive years, and it was 61% for nonflyers and 44% for flyers in 1983. The track record of this company is also good enough to be featured in their advertisements; with cost and coverage levels being maintained throughout both the Vietnam and Korean conflicts. The policy is level term insurance to age 70, but it changes to decreasing term at separation or retirement. Therefore it does not really provide $50,000 coverage to age 70 for the average military person. (2)

The final policy, that of the AFA, is offered in three options, and features a number of additional benefits at addi-

Chapter Three

THE POLICIES ANALYZED

Chapter two briefly discussed peculiarities of various insurance plans as well as different types of insurance policies commonly available. This chapter presents specific features of the insurance policies examined in the subsequent analysis in this paper. The policy information sought was from policies commonly available to service members through advertisements in paramilitary publications and service related organizations.

There were six companies that sent policy information usable for comparison to the proposed optional SGLI insurance policy. Other companies (USAA for example) preferred to send information that is "individually tailored" (by age, smoker vs nonsmoker, etc.) to the specific individual concerned. Other companies sent whole life information instead of or in addition to term insurance information. While whole life insurance is interesting for simple comparison purposes, it is not the type of insurance the optional insurance proposal represents and therefore will not be analyzed with the term insurance information in this paper.

The insurance plans analyzed are offered through the following associations: Uniformed Services Benefit Association (USBA), Armed Services Mutual Benefit Association (ASMBA), Officers Benefit Association (OBA), United Services Association (USA), Armed Forces Relief Benefit Association (AFRBA), and the Air Force Association (AFA). Group insurance through three different credit unions was also examined but these were either only coverage for indebtedness amounts or accidental death insurance only.

The insurance policy offered through the USBA is underwritten by the Mutual Benefit Life Insurance Company. This policy is group term insurance in fixed amounts. However, the face value and premiums change as the insured enters the next age bracket. Until age 36, this plan pays one-half the face value in case of death by an aviation accident in which the insured was a crewmember. However, the insurance is available in quantities sufficient to provide the $50,000 amount that is the base for this analysis as contained in the optional insurance proposal. Face values of the policy in the analysis are well over $50,000 and the company says a plan can be changed to a different plan at any time, so that the desired amount of (not a policy) of insurance that references the master policy. Most of the group policies researched in this analysis featured claims of noncancelability as long as premiums were paid, the insured remained a member of the group holding the master policy, and the master policy remained in effect. This sounds pretty solid, but there is an "out" here for the insurance underwriter. Should the risk become prohibitive, causing losses to reach unacceptable levels, the master policy could be canceled, effectively invalidating the insurance coverage. In fairness to the insurance companies, many who offer group policies to service members have not done this even during the Vietnam conflict and in fact, either reduced premiums during this timeframe or increased coverage, as they point out in their brochures. This factor is eliminated as long as the government underwrites the extra hazard associated with military service as it currently does with SGLI. Whether or not the government would continue to do this for the proposed optional group insurance policy could very well affect the absolute security of the protection offered or the cost of such a group policy.

In the next chapter, I will address the unique characteristics of each policy as it is presented. The information is offered only as items of interest, and no value judgment is made here for these options as such judgment would often be unique to the specific needs of an individual desiring insurance. For instance, a single person would doubtlessly place little value on additional insurance coverage for spouses while a married person may place high value on it. The criteria for analysis will be the overall cost, regardless of the options added. Further, while reference will be made to dividends paid by various companies, these dividends will not be used to reduce the cost of the policies since dividends are not guaranteed.

maintained in force. This type of policy also usually builds a cash value which can be obtained by surrendering the policy or may sometimes be used as collateral against which to borrow.

The name of the term policy also suggests the type of policy it is. That is, it is insurance for a specific period of time, the term of the policy. Term insurance does not build up a cash value and cannot be borrowed against. However, term insurance does provide protection against short term risks such as children's education needs, mortgages or other indebtedness, or periods of potentially higher risk such as military service. Term insurance can be purchased in a level fixed amount, or in an amount that periodically decreases over the term of the policy, depending on the type of risk one wants to be insured against. Because term insurance is for a shorter period of time, it does reduce the probability of payoff and may be cheaper than lifetime insurance, provided the risk is not unusually large. In addition, term insurance can usually be converted to some other type of insurance if so desired.

The third type of insurance, the endowment policy is the least common today. It is designed to provide a fixed amount of money at a specified date if the insured person remains alive to that time. Should the insured die sooner, then the value of the policy would be paid at death. (9:234)

Commercial insurance policies today can be tailored to almost any conceivable need, if the means to pay the premiums exists. The most economical policies are usually the standard policies offered by companies. Of these, group policies are usually the least expensive. However, these group policies vary significantly in features added to increase their attractiveness. Examples of some of these added features are: added minimal coverage for a spouse and/or children, additional coverage benefits (often double the face value) for accidental death, guarantees of ability to purchase additional insurance, and payments of dividends to reduce the overall premium costs. Of particular interest to service members is the presence of air and/or war clauses in some policies. These clauses are expressly to either negate or limit the coverage in the event of death caused by war or flying duty as a pilot or aircraft crewmember. Some companies charge additional amounts for this coverage or refuse it outright. Other companies limit the amount of coverage for war or crewmember related deaths and others limit the coverage by age.

Perhaps the most significant factor in insurance coverage though, is the assurance coverage will continue intact. That is, if the group being insured comes under additional risks (such as war) then the insurance company cannot terminate the policy. In group insurance, the common practice is to issue a master policy to the group through which the insurance is being offered, and each of the insured members receives a certificate

Chapter Two

TYPES OF INSURANCE

The inception of SGLI in 1965 represented the first time that the financial protection provided servicemen by the government was underwritten at least in part by private insurance companies. All military compensation is reviewed on a quadrennial basis by a committee known as the Quadrennial Review of Military Compensation (QRMC) at the direction of the President. The most recent committee, the 5th QRMC, was chaired by an Air Force Major General and worked directly for the Assistant Secretary of Defense for Manpower, Installations, and Logistics.

The 5th QRMC made two recommendations affecting the insurance available through SGLI, should those two recommendations become law. The first recommendation would simply raise the current maximum level of coverage to $50,000. The second recommendation would be more innovative. If this were adopted, there would be an additional optional $50,000 coverage available on a voluntary, by application basis. (4:7-8) Administration of such a policy would also be carried out within the existing VA framework for SGLI.

An optional policy as recommended would need to be at least competitive price-wise with existing group insurance policies commonly available to service members today. However, comparison of the various insurance policies available is not always as simple as it might appear on the surface. Confusion enters because of the myriad of types of insurance and options available with different policies. While policies can be generally grouped into three types, the options commonly available with basic policies are varied and generally designed to make those policies more attractive, thus enhancing their sales. The remainder of this chapter will be devoted to a description of the three general types of policies and some, not all, of the kinds of options available.

The three general types of policies sold today are the lifetime policy, the term policy, and the endowment policy. The lifetime policy is also known as whole life, straight life, and ordinary life. The main feature of a lifetime policy is as its name suggests; it will pay the face value of the policy to the beneficiary when the insured person dies, if the policy is further efforts to increase it to $50,000. Further, SGLI has an "automatic" feature in that all service members are covered for the maximum amount unless the the member specifically declines coverage or chooses a smaller amount. (9:290-291) SGLI represented the first time that servicemen's insurance was underwritten by private companies. However, the government still underwrites the extra hazard portion of the insurance relative to the uniqueness of military careers. This amount is determined by the amount of claims over and above the amount expected to be paid based on the most recent three years' mortality experience.

SGLI is administered through the VA, in conjunction with a "primary insurer" per Title 38 of the United States Code (U.S.C.). The primary insurer, the Prudential Insurance Company, in turn offers a chance to underwrite portions of the insurance to other companies. In recent years, over 330 insurance companies have participated in the program.